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METROPOLITAN DETROIT COMMERCIAL REAL ESTATE

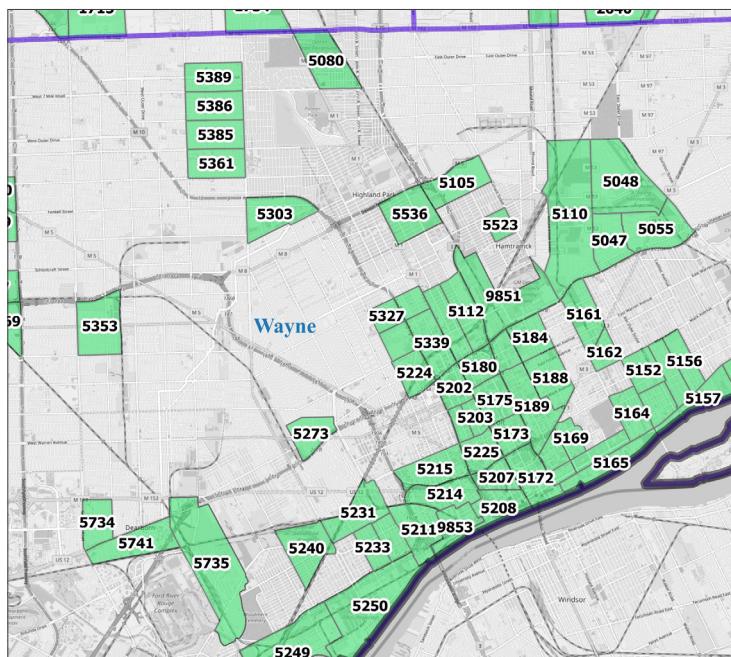
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Opportunity Zones: Capital Gains Tax Incentive & How You Can Benefit

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The 2017 Tax Cuts and Jobs Act came with an incentive program that has been largely overlooked and now catching the eyes of investors across the country. The tax incentive is attached to various newly designated Opportunity Zones (OZs), and has been created to benefit investors and distressed neighborhoods hungry for attention. Easily overlooked in the beginning of the 2017 Tax Law implementation, OZs are now picking up traction and becoming center stage. With many attractive benefits, investors are trying to figure out what the new program is about. In this article you will find a brief introduction to OZ's, the levels of benefits, a link to an interactive map outlining qualifying OZs, and a few additional pieces of information that can help with your understanding of the Opportunity Zone program.

The Opportunity Zone tax program provides different levels of incentive for investors who redirect their unrealized capital gains through a Treasury certified private investment vehicle called Opportunity Funds. Opportunity Funds are organized as a corporation or partnership. We call them (O-Funds). It is important to know that the capital used to form your O-Fund does not have to originate from a real estate transaction and can come from any capital gains source. There is no defined limit of O-Fund participation or ownership at the current time. In addition, your O-Fund must have 90% of its assets in qualifying Opportunity Zones defined by census tracts to remain compliant. As follows, your O-Fund will receive benefits in a designated tier system based on the duration of your investment.



For a list and map of Opportunity Zones throughout the United States, visit www.cdfifund.gov/Pages/Opportunity-Zones.aspx

Tier 1 is a temporary deferral similar to a 1031-Exchange except limited by geography, a deferral deadline, and does not require funds from the sale of real estate. You will not be taxed on unrealized gains invested in your O-Fund until you exit the fund on the deadline December 31, 2026 or earlier.

Tier 2 is a step up in basis. If your O-Fund investments are held for a minimum of 5 years, the basis of their original investment increases by 10%. Another 5% is added at 7 years. To clarify, after five years you will only owe taxes on 90% of the original rolled over capital gains amount, and after seven years you will only owe taxes based on 85% of the original value.

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Overall Office Vacancy Rate Remains under 10%

The Overall Metro Detroit Office market ended the third quarter 2018 with a vacancy rate of 9.1%, remaining unchanged from the second quarter 2018. The net absorption totaled positive 324,982-square feet in comparison to the 936,530-square-feet in the previous quarter. Eight buildings totaling 386,944-square-feet of new construction were completed with 1,451,341-square-feet still under construction.

The average quoted asking rental rate for available office space, all classes, was \$19.37/sf per year, a 0.4% increase from the second quarter of 2018. Total building sales activity was down in 2018 compared to 2017. The first six months saw 26 office sales transactions totaling \$96,259,273, averaging \$67.69 per square foot. Cap rates have been lower in 2018, averaging 8.58% compared to the same period in 2017 when they averaged 8.88%.

Notable office transactions occurring in 3rd quarter 2018 include:

- Universal Properties sold their building in Southfield for \$16,200,000.
- Henry Ford Health System leased 140,000 square-feet in Royal Oak.
- United Way leased 36,500 square-feet in Detroit.



95,000 sf Office Building for Sale in Southfield



7,000 sf Medical/Office for Sale/Lease in St Clair Shores

Metro Detroit's Class "A" Office Market Stats

Market Area	Inventory	Vacancy	Vacancy %	Under Construction	Asking Rates Gross
Bloomfield	4,281,547	406,258	9.5%	0	\$24.33
Detroit/ The Pointes	11,963,190	965,303	8.1%	734,288	\$23.49
Livingston/ W Oakland	1,694,884	172,696	10.2%	124,000	\$26.14
Macomb	796,835	23,507	3.0%	0	\$24.57
North Oakland	6,575,056	97,098	1.5%	0	\$23.34
Southfield	7,544,675	1,540,088	20.4%	0	\$21.81
Troy	7,132,743	1,124,061	15.8%	0	\$20.93
Washtenaw	2,989,250	235,572	7.9%	30,000	\$29.79
West Wayne	6,701,568	445,070	6.6%	0	\$20.05
TOTALS	49,679,748	5,009,653	9.2%	888,288	\$23.83

For additional market information, contact P.A. Commercial. Source: CoStar.

Average Quoted Asking Rates Inch Over \$6.00 per Square Foot

The vacancy rate for the overall Detroit Metropolitan industrial market increased to 3.2% compared to 3.1% in the second quarter 2018. The amount of vacant sublease space decreased slightly to 747,336-square-feet from 792,357-square-feet in the second quarter. Net absorption for the entire Detroit market was positive 631,538 square feet.

The overall average quoted asking rental rate increased to \$6.07 per square foot. A total of nine buildings were completed in the quarter totaling 1,344,194-square-feet, with 7,028,371-square-feet still under construction.

The average sales price for the 62 buildings sold in the first six months of 2018 was \$53.89. Cap rates averaged 7.84% in 2018, compared to the first six months of last year when they averaged 9.01%.

Notable industrial deals in 3rd quarter 2018 include:

- STAG Industrial purchased 439,150-square-feet in Novi.
- Federal Resources Supply Co. signed a lease for 86,422-square-feet in Warren.
- Production Management One signed a lease for 70,186-square-feet in Farmington Hills.
- AIC Ventures purchased a 303,383-square-foot building in Detroit.



*25,800 sf on Schoolcraft for Lease
in Livonia*



*13,816 sf Industrial for Sale
in Clinton Township*

Metro Detroit's Industrial Market Stats

Market Area	Inventory	Vacancy	Vacancy %	Under Construction	Asking Rates NNN
Airport/I-275	129,692,831	4,495,276	3.5%	2,409,979	\$5.89
Detroit	88,642,210	3,658,705	4.1%	530,000	\$4.88
Downriver	50,094,900	788,191	1.6%	79,580	\$4.28
East Area	125,141,577	2,629,441	2.1%	1,975,381	\$6.05
I-96 Corridor	57,175,999	1,892,160	3.3%	649,685	\$7.28
Oakland County NW	53,359,230	2,604,221	4.9%	392,540	\$6.90
Royal Oak/ Southfield	20,115,061	896,036	4.5%	831,610	\$6.97
Troy Area	30,941,365	941,190	3.0%	6,734	\$7.75
Washtenaw Area	30,574,701	762,367	2.5%	77,840	\$8.99
TOTALS	583,971,920	18,157,360	3.2%	4,325,076	\$6.47

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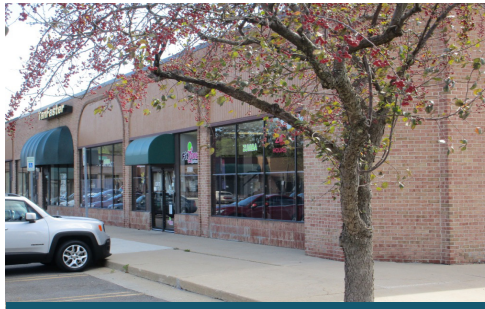
Tier 3 is the 15% step up in basis AND Permanent Exclusion! If you hold your O-Fund investments for 10 years, you will then settle your original tax bill at 85% taxable value, and the gains accrued during your Opportunity Fund investment during that 10-year period will not be taxed. It's a permanent exclusion from taxable income.

Sales of development sites in Opportunity Zones have jumped 80% compared to last year. We at P.A. Commercial

encourage you to speak to your tax professional and explore the Opportunity Zone program. We expect to see hard application of the Opportunity Zone program in Q4 of 2018 and Q1 of 2019. Tax forms and application forms can be found at IRS.gov, and you will want to confirm if any of your 2017 investments can be reclassified on an amended tax return as encouraged by the IRS. Please see the Qualifying Opportunity Zone Map in the link below. P.A. Commercial always appreciates your business and is here for you. Reach out to our offices for any further questions and have a great Q4!



OFFICE SALE - GROSSE POINTE FARMS



RETAIL LEASE - LIVONIA



INDUSTRIAL LEASE - FRASER



OFFICE LEASE - TROY



OFFICE LEASE - BLOOMFIELD HILLS



OFFICE LEASE - SOUTHFIELD



HI-TECH SALE - SHELBY TWP.



OFFICE LEASE - FARMINGTON HILLS

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